Standard Bank Group Limited
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("Standard Bank" or "the group")

Voluntary trading update and trading statement for the six month period ending 30 June 2020

Trading update

Shareholders are advised that the outlook for the twelve month period ending 31 December 2020 (FY20) continues to deteriorate. In sub-Saharan Africa, the human impact of the Covid-19 pandemic is growing. Standard Bank recognises the need to "flatten the curve". We will continue to prioritise the safety and wellbeing of our employees and our customers, while also supporting community initiatives in the countries in which we operate.

The group also recognises the significant impact the lockdowns have had, and continue to have, on our clients. While the lockdowns in some of our markets started to ease or be lifted in early May, South Africa's lockdown has continued to constrain large parts of the economy. In Africa Regions, the group's African operations outside South Africa, the lockdown period has averaged 37 days. South Africa has been under a relatively restrictive lockdown for 63 days. We welcome the SA Government's decision to transition to level 3 and open-up more of the economy.

While the economic data is likely to take some time to catch up, the toll of the lockdowns is starting to emerge. By 28 May, the Personal and Business Banking division (PBB) had provided R92 billion in relief to individuals, SMMEs and commercial clients in SA across 285 000 accounts and R11 billion to predominantly commercial PBB clients in Africa Regions across 14 000 accounts. The Corporate & Investment Banking division (CIB) had concluded restructures for eligible clients with risk exposures amounting to approximately R30 billion. To date, the CIB requests have largely originated in SA.

From a Standard Bank perspective, the lockdowns negatively impacted sales, disbursements and transaction activity levels. In South Africa, in April deeds offices and dealerships were closed which halted mortgage disbursements and resulted in a more than 70% decline in VAF disbursements compared to March. In addition, ATM and branch volumes were down 38% and 61% respectively. While there has been an improvement in activity levels during the course of May, they remain below those seen prior to the lockdown.

There remains a high degree of uncertainty regarding the impact that the Covid-19 pandemic and the associated governmental responses will have on the economies in the markets in which the group operates, and in turn, on the group. While we remain unable to provide guidance with regards to the group's performance for the year ending 31 December 2020, we wish to provide some high-level commentary on the factors influencing the FY20 outlook.

Year to date, all the currencies across the 20 markets in which the group operates on the continent have weakened relative to the USD. The South African Rand (ZAR), Zambian Kwacha and Zimbabwean Dollar have weakened the most. In contrast, the countries in the group's East Africa Region have held up relatively well. While the ZAR is expected to strengthen by year end, it is likely to be weaker on average relative to the USD and the Africa Regions currencies year on year. This will support the earnings contribution from Africa Regions. Inflation has remained relatively subdued despite currency weakness. There have been policy interest rate cuts in all but three markets, with South Africa seeing the largest cumulative decline to date at 275 bps. In 2020, the economies in 12 of our 20 Africa countries are expected to contract; South Africa, Botswana and Namibia are expected to see the biggest declines. Our current expectation for South Africa is an 8.5% decline in real GDP in 2020, followed by a 6.5% recovery in 2021. The East Africa Region economies (Kenya, Tanzania and Uganda) are currently expected to avoid a contraction.

Loan growth in the first 4 months of 2020 (4M20) was robust. The combination of higher digital disbursements, corporate facility drawdowns and a weaker ZAR led to strong double-digit growth period on period. CIB grew faster than PBB. In PBB, unsecured lending grew faster than secured lending. Loan growth is expected to slow from current levels. Low business and consumer confidence levels are expected to continue to be a constraint on secured portfolio growth. While instalment relief is likely to temporarily support portfolio levels, this is likely to be offset by lower new business disbursements. Unsecured lending growth will be subject to individual affordability and business and sector viability over the medium term. Deposit growth was also strong period on period, in particular demand deposits, as corporates drew down on facilities to access liquidity and placed it back on deposit. Deposit growth is also expected to slow.

Balance sheet growth will partially offset a meaningful decrease in net interest margin on the back of higher funding costs and negative endowment following the significant policy interest rate cuts seen to date. In South Africa, a 25 bps movement equates to an annualised R300 million net interest income impact. The group’s current assumption is that there will be no further policy rate cuts in South Africa in 2020. Non-interest income growth, while supported by trading income in 4M20, will depend on the pace and magnitude of the recovery in 2H20. Containing operating expense growth remains a focus. Where possible, cost levers will be pulled, but not at the expense of the resilience of our systems or our ongoing digital customer journeys.

Credit impairment charges have the greatest potential for variability and will depend on the depth of the recession and pace of the recovery. In the modelling of expected credit losses, IFRS 9 requires the consideration of the current portfolio performance, comprising individual counterparty and portfolio performance, and a forward-looking view. In determining the latter, one is required to apply judgement and make a number of forward-looking assumptions. We note the guidance and clarification provided by the Prudential Authority in Guidance Note 3/2020 and Guidance Note 6/2020 in this regard. Our current scenario analysis indicates that the group’s credit loss ratio for FY20 will be above the group’s through-the-cycle range of 70 bps to 100 bps and may exceed the peak recorded in the Global Financial Crisis of 160 bps.

The group ceased accruing earnings from its 20% stake in ICBC Argentina post the decision to sell its stake in August 2019. ICBC Standard Bank Plc (ICBCS) incurred a significant single client loss in FY19 which should not repeat in FY20. ICBCS’ ability to break even remains subject to better integration with ICBC’s client base.

With regards to Liberty Holdings Limited’s (Liberty) performance, please refer to Liberty’s voluntary operational update announcement released on the JSE Stock Exchange News Service (SENS) on 14 May 2020 and the trading statement released on SENS on 29 May 2020.

On capital, funding and liquidity, the group supports the actions taken by the South African Reserve Bank. As at 31 March 2020, the group’s common equity tier one ratio was 12.9% and liquidity coverage ratio was 141.9%. As at 30 April 2020, the group remained well capitalised and liquid. Based on our scenario analysis, the group’s capital ratios are expected to remain strong and above required minimums. In line with the Prudential Authority's guidance on dividends, the group is not planning to declare an FY20 interim ordinary dividend.

If the pandemic-related impacts are deeper or more sustained than currently expected, or government actions are not effective, the group's results could vary meaningfully. The group is reviewing the group's medium-term financial targets and will provide an update as and when able to do so.

Trading statement

Shareholders are advised that Standard Bank's headline earnings per share (HEPS) and earnings per share (EPS) for the six-month period ending 30 June 2020 are expected to be more than 20% lower than the reported HEPS and EPS for the comparable period (1H19 HEPS: 837.4 cents, 1H19 EPS: 827.0 cents). We will issue a further trading statement with more specific guidance ranges once there is reasonable certainty regarding the extent of the decline relative to the comparable period.

Standard Bank's results for the six months ended 30 June 2020 are expected to be released on the SENS on 20 August 2020.

The complexity and uncertainty surrounding the crisis has been stressful for our employees and we thank them for their ongoing commitment. In a dynamic and broad crisis such as this, the depth of skills and experience across the group has proven invaluable. In addition, the group is confident it has the governance and risk management structures in place to ensure the appropriate and timely flow of information required to support agile and effective decision-making. A large proportion of the group's employees across the continent, and in our international offices, continue to work productively from home. This would not have been possible without our strategic partnerships and the systems investments the group has made in recent years. Our digital customer channels have also proven resilient.

While our immediate priorities remain employee, customer and community safety and support, we also recognise the need to lift our heads and plan for the recovery phase and the opportunities a "new normal" may bring. With our operational business continuity plans now well embedded, our focus is increasingly moving towards growing the sustainable strength of our client franchise.

Investor call

Standard Bank will host an investor call at 17h00 (South Africa time) on 4 June 2020. The call details are available on the Standard Bank Group Investor Relations website - https://reporting.standardbank.com/

A replay will be available shortly after the end of the call.

Shareholders are advised that the information contained in this trading update and trading statement have not been reviewed or reported on by the group's auditors.

Johannesburg
1 June 2020

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